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EC 92 AND THE UNITED STATES

BY

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The world is undergoing tremendous change in the 1990s. Instead of a bipolar world where military might was the power, we are now entering a multipolar world where economics is the power. The emergence of a single Western European market, commonly referred to as EC 92, will challenge the United States on the world market. The single European market, scheduled for completion in eight months, is an organization of 12 nations whose ambitious goal is to transform the Community into an area without internal frontiers for goods, capital, services and people by December 31, 1992. The United States cannot afford to ignore this market of 320 million customers. To be able to compete with EC 92, the U.S. will have to make changes in the relationship between government and industry, and industry will have to become more innovative in cutting production costs and in improving the quality of the product. The U.S. also needs successful negotiation of the current Uruguay round of the GATT talks. The voices of isolationism and protectionism are on the rise -- both here and in Europe -- strengthened by a stagnant European economy and America's search for a scapegoat. The world

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USAWC MILITARY STUDIES PROGRAM PAPER

EC 92 AND THE UNITED STATES

AN INDIVIDUAL STUDY PROJECT

by

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ABSTRACT

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The world is undergoing tremendous change in the 1990s. Instead of a bipolar world where military might was the power, we are now entering a multipolar world where economics is the power. The emergence of a single Western European market, commonly referred to as EC 92, will challenge the United States on the world market. The single European market, scheduled for completion in eight months, is an organization of 12 nations whose ambitious goal is to transform the Community into an area without internal frontiers for goods, capital, services, and people by December 31, 1992. The United States cannot afford to ignore this market of 320 million customers. To be able to compete with EC 92, the U.S. will have to make changes in the relationship between government and industry, and industry will have to become more innovative in cutting production costs and in improving the quality of the product. The U.S. also needs successful negotiation of the current Uruguay round of the GATT talks. The voices of isolationism and protectionism are on the rise -- both here and in Europe -- strengthened by a stagnant European economy and America's search for a scapegoat. The world has changed to become a global marketplace and the United States just hasn't done enough to adjust to the new challenges of economic competition. American politicians and industrial leaders need to begin focussing on the long-term improvement of American competitiveness and establish a strategy to successfully deal with this new economic giant.

A day will come when you, France; you, Russia; you, Italy; you, Britain; and you, Germany - all of you, all nations of the Continent will merge tightly, without losing your identities and your remarkable originality, into some higher society and form a European fraternity.... A day will come when markets, open to trade, and minds, open to ideas, will become the sole battlefields.

Victor Hugo

If Europe were once united in the sharing of its common inheritance there would be no limit to the happiness, prosperity, and glory which its 300,000,000 or 400,000,000 people would enjoy. Yet it is from Europe that has sprung that series of frightful nationalistic quarrels, originated by the Teutonic nations in their rise to power, which we have seen in the twentieth century and in our own lifetime wreck the peace and mar the prospects of all mankind....Yet all the while there is a remedy which, if it were generally and spontaneously adopted by the great majority of people in many lands, would as by a miracle transform the whole scene and would in a few years make all Europe, or the greater part of it, as free and happy as Switzerland is today.

Winston S. Churchill
Zurich
September 19, 1946

This large market without frontiers, because of its size and because of the possibilities that it offers for scientific, technical and commercial co-operation, gives a unique opportunity to our industry to improve our competivity. It will also increase growth and employment and contribute to a better balance in the world economy ... It is revolutionary, but it will be achieved both because it is absolutely necessary and carries with it the goal of a united and strong Europe.

Jacques Delors, 1988

Introduction.

1992 represents a significant milestone in the history of Europe; European market integration will succeed with Germany being the dominant economic force. But the creation of the single market should not present any particular long-term problem to the United States in terms of market access as long as we maintain competitiveness and continue to practice open trade.

The twelve member nations that make up the European Community have made notable progress in an ambitious undertaking to remove trade barriers, providing free movement of goods, services, capital, and people between borders. The formal adoption on June 29, 1985 of a comprehensive program which includes a timetable for action on specific measures culminating in an overall deadline of December 31, 1992, marks the initiation of a process designed to bring about the most significant change in Europe since World War II: EC 92.

But the European Community is becoming not only an economic power to be reckoned with but a political power in its own right. During the recent collapse of the Soviet bloc, and the emergence of new Balkan countries, the Community has played a significant role in assisting these struggling nations by recognizing them as free and independent states and in helping them transform from their command economy to that of a market economy. When Slovenia and Croatia fought to gain their independence from Yugoslavia, Germany first, and then the rest of the Community, offered them formal international recognition as free and sovereign states.

But all is not harmonious within the Community. There are disagreements among member nations on the future direction of the Community. Old nationalistic rivalries are reemerging. The movement towards political union of the member nations has taken on a renewed urgency in the wake of German reunification. The balance of power, where once each member was one among equals, has shifted to Germany, who, since unification, appears now more equal than the others. The nations are attempting to keep this larger and more powerful Germany under control politically while, at the same time, sharing in its economic power. Germany -- because of its demography, geography, and economy -- has become the Community's heart. France and Germany, the two largest and most powerful members, are proposing a pan-European military while the other members want NATO, not the West European Union, to remain the security force. The five largest nations -- Italy, Great Britain, France, Germany, and Spain -- now want to keep the rotating presidency of the Council of Ministers between themselves and not let the seven remaining nations hold that office. To pave the way for a further economic and monetary union, the European Community Commission is proposing a one-third increase in spending in their 1993-1997 budget; Italy, Germany, and Great Britain are objecting to the proposed budget increase.

Fundamental to these issues, and most of the others, is that of the sovereignty of the individual member nations. Can the European Commission issue regulations that run counter to national laws? What is at issue is what counts more: national interest or supranational institutions. How much of its sovereignty is each nation willing to give up to achieve this economic and potentially political union? Is Europe ready for a political union, a United States of Europe? And can the differing economic and monetary policies of the member nations be centralized under a common currency? These issues, and more, are being debated in Brussels and Strasbourg. EC 92 is only eight months away. What does the future Europe hold for the United States?

This paper will provide a history of the Economic Community, how it is organized and functions, a discussion of current problems and major issues remaining, and a discussion of the impact of EC 92 on the economic interests of the United States.

How the European Community is Governed.

The twelve countries that comprise the European Community are a diverse group, from industrialized Germany to the primarily agricultural Greece and Portugal. They speak eleven distinct languages and many individual dialects. They represent different and sometimes incompatible cultures. Attempting to mediate these conflicts is a bureaucracy based in Brussels and Luxembourg.

Commission of the European Communities. For the most part, the Commission is the executive branch of the European Community. It is responsible for initiating policy, insuring the Community laws are observed, and carrying out the legislation approved in concert with the Community's other institutions. The legislation is drafted and proposed not with national goals in mind but what is best for the Community as a whole. To make sure the Commissioners are no more than the voice of appointing governments, a Commissioner cannot be simply removed from office by his national government.[1] The Commission exercises "executive" functions as the measures it proposes are designed to promote European integration.

This seventeen-member body, based in Brussels, has two members each from Germany, Britain, France, Spain, and Italy, and one member from each of the seven remaining member nations. Once appointed by their nations to their four-year terms, the Commissioners serve the Community and act independently of their national governments and issue rulings in nine Community languages. They oversee the Community's 23 bureaucratic departments which include the environment, agriculture, external relations, and competition policy. The Commission is led by a president, appointed from among the commissioners to a renewable two-year terms. The president then assigns each commissioner a portfolio of responsibilities.

The commission is responsible for administering the Community's body of law, but, lacking a police force, relies on the national governments for enforcement. The Commission also makes proposals, ranging from granting aid to poorer regions, through the Regional Development Fund, to reducing the content of automobile emissions. The Commissioners are responsible for negotiating treaties between the European Community with other nations.

There are several types of official Community acts but the most important are directives, decisions, and regulations. Directives are binding with respect to the subject of the directive and to which nation it is addressed. Decisions are considered binding in their entirety to those nations addressed. Regulations are binding in their entirety and are applicable to all member nations. "Regulations are the most important means of promoting precise legislative authority. If national law conflicts with Community law, the latter is supreme."[3]

The Commission meets at least weekly and, although the majority rules, usually makes its decisions by consensus.

Council of Ministers. The Council is composed of ministers from each of the twelve member countries and is the supreme decision making body of the Community. They make the major policy decisions of the European Community; adopting, amending, or rejecting proposals made by the European Commission, normally after parliamentary review. There can be no Community Acts without the proposals being approved by the Council. This function defines them as the legislative body of the Community.

Each member nation holds the Council's presidency for six months, rotating alphabetically by the name of the member nation written in their native language; currently the Presidency is held by Portugal. The Council has a secretariat of more than 2,300 officials.

The Council's meetings are attended by the different ministers according to agenda. For example, the agriculture ministers decide whether to raise or lower farm subsidies while the transportation ministers decide whether to deregulate the Community's airlines. On questions of overriding importance like political unions or admitting new members, attending are the eleven prime ministers and the French president, being technically convened as the European Council.

On vital issues to the Community, the Council decides questions by consensus, but to help make the Community operate more efficiently, a 1986 treaty allows weighted majority voting in several areas, including health and safety matters, research and technology, and industrial affairs.

The European Parliament. This 518-member branch of the European Community is the only organization that has directly elected representatives. Members are elected to five-year terms with the national parties of the member nations represented. The members sit by political grouping rather than by nationality. The largest groups are the Christian Democrats and the Social Democrats. As in the member nations' parliaments, the political groups play an important role in organizing the parliamentary agenda and allocating resources.

The Community's most populous countries, Italy, Great Britain, Germany, and France, each have 81 members. Spain has 60, the Netherlands has 25, Greece, Belgium, and Portugal have 24 each, and Denmark, Ireland, and Luxembourg each have 16, 15, and 6, respectively. Germany sought to increase their representation by an additional 18 members based on reunification, but France lobbied against the proposal and it was not carried.

The parliament holds its full sessions in Strasbourg while its staff of nearly 3,500 is based in Luxembourg and its 18 committees meet in Brussels. There currently is pressure from the members to move all activity to Brussels.

The parliament reviews and debates all legislative proposals and proposes amendments for preliminary positions adopted by the Commission and the Council; it cannot, however, initiate or pass any legislation. Community legislation cannot be passed by the Council without the Parliament rendering an opinion on the proposal. The Parliament does have the power to reject or adopt budget proposals by the Commission. The 1987 Single European Act granted the Parliament the power of agreement to applications for membership in the Community and association and cooperation agreements with non-member governments.

The European Court of Justice. The 13-member court is the supreme arbiter of legal issues within the Community. This supranational court is often called upon to settle legal differences between the Community and the member nations. Member nation national courts may petition the Court to interpret points of Community law for them. They are to "ensure that in the interpretation and application of this Treaty the law is observed."[3]

For example, the Court of Justice may decide whether a subsidy granted by a member nation to a particular business is illegal as the Commission may charge, or whether the Commission misinterpreted the Community's competition laws in charging a company with being a monopoly. The Court also hears cases brought by individuals in instances where the Council of Ministers or member nations have allegedly failed to fulfill their obligations. Its decisions are binding and they overrule judgements made by national courts.

The Court of Auditors. This court, based in Luxembourg, is responsible for auditing the Community's budget and assisting the Parliament and Council in exercising control over the execution of the budget. The Parliament uses the Auditor's reports and findings in deciding whether to accept, amend, or reject the Community budgets.

The European Council. This Council is composed of the heads of the twelve heads of government and the President of the European Commission. This body was created by 1987 Single European Act and meets at least bi-annually to discuss issues concerning the Community at large and political cooperation among the member nations.

History of the Economic Community

The present day European Community has evolved from initial attempts at an economic union to rebuild Europe's shattered economies in the aftermath of World War II. Founded in 1948 with American money (the Marshall Plan), the Organization for European Economic Co-operation (OECC) first helped the European countries along the path to economic recovery. Money was allocated to finance industries in each country to avoid wasting resources and to prevent an unnecessary duplication of efforts. European countries were encouraged to trade among themselves. Since trade had to be financed, and most of Europe was short in the foreign exchange department, special arrangements were made to finance trade through the founding of the European Payments Union. By the end of the 1950s, the liberalization of trade from quantitative import controls was nearly complete and the currencies were sufficiently strong to dispense with the Union. At this point, there was a choice between further attempts to integrate trade by abandoning tariffs on European goods or for each country to go it alone.

In the late 1940s, Germany was making significant progress at reconstruction and this worried the French; they were fearful that a stronger Germany may have further designs on France. To curb this potential problem, France's Foreign Minister Robert Schuman proposed uniting the two countries' coal and steel industries under a common authority in an organization that would welcome other European countries.

In 1951, the European Coal and Steel Community (ECSC) was created when the six countries of France, West Germany, Italy, Belgium, Luxembourg, and The Netherlands established a common market for coal, iron, and steel. The ECSC reduced intra-country tariffs on these goods, allowing the member nations to compete on an international scale. It provided a common basis for economic development and was the first independent step in uniting a post-war Europe.

Although the ECSC was developed primarily to lessen the chances of war through economic integration, it had several other advantages. It created an economic environment, by removing trade barriers, that was conducive to large-scale production, industrial concentration, and free movement of raw materials, labor, finished goods, and capital between countries. This common market was seen as a way to promote further economic growth in these recovering nations and as a way to compete internationally with the superpowers. Individually, the countries could not compete globally, but collectively they could restore Europe as a world trading center.

The European Coal and Steel Community was such a tremendous success that efforts continued to further unite Europe economically. In 1957, the members proposed the creation of the European Atomic Energy Community (Euratom) to develop nuclear energy for industrial and scientific purposes. It was to be accomplished through providing technical assistance, free movement of nuclear material and equipment, and common standards and procedures for the protection of workers and the environment.

More important, that same year the member nations proposed one economic market to be called the European Economic Community (EEC). The EEC was to abolish trade restrictions between member countries, especially tariffs. The EEC was also responsible for instituting a common external tariff for trade with other nations (customs union) and for developing the Common Agricultural Policy (CAP) to cover domestic prices paid to farmers and govern the import of foreign foodstuffs. This treaty adopted policies permitting the free flow of goods, people, services, and capital among its members, the creation of a uniform method of taxation, and standardized and improved social programs. Collectively, the Euratom and EEC treaties are known as the Treaty of Rome and were promulgated in 1957.

Great Britain had sent a representative to the conference in Rome but withdrew him when talk turned to the creation of the customs union. Great Britain had also been asked to join the ECSC but had turned that down, too. They did not share the continental view of limiting the worth of the State, their sovereignty, and did not want to turn over any part, however small, to a central authority. They wanted nothing to do with becoming part of a supranational organization.

While Great Britain was not prepared to submit to the supranational objectives of the EEC, it did want the benefits of free industrial trade. In 1960, Great Britain, with Austria, Denmark, Norway, Portugal, Sweden, and Switzerland, formed the European Free Trade Association (EFTA) through the promulgation of the Stockholm Convention. Its purpose was to promote economic expansion among the member nations. Not being a customs union, the member nations contracted to remove obstacles to industrial trade among themselves with the ability to grant similar advantages to non-member nations. Equal trading opportunities were guaranteed and restrictive business practices were prohibited. Over a period of seven years, their non-agricultural tariffs were removed. Decisions of the EFTA were implemented by the governments of the member nations after having been agreed to at the ministerial level.

The objectives of both the EEC and the EFTA were economic integration among member nations. The members of the EFTA, for various political and economic reasons, found the EEC approach to economic integration too rigid and too political. The EFTA raised the issue of supranationalism: are supranational institutions necessary to achieve economic integration in Europe? Attempts to merge the EEC and EFTA into a larger common market were thwarted by France who did not want to expand the EEC.

However, once Great Britain joined the European Community in 1973, trade agreements with the EFTA began taking effect.

Under the provisions of a 1965 treaty, the executive agencies of the ECSC, EEC, and Euratom were merged in 1967, forming the integrated administrative system today known as the European Community (EC). In 1973, Denmark, Great Britain, and Ireland became members. Greece joined in 1981 and Spain and Portugal became members in 1986.

In the ten years following 1967, several proposals were advanced calling for further economic and monetary integration. But the high inflation, high interest rates, and slow economic growth of the mid and late 1970s, coupled with widespread labor unrest, preoccupied the member nations and slowed European economic integration. This malaise continued into the 1980s as disputes over budget contributions and the protective industrial policies pursued by individual member nations continued to deplete the momentum from economic unity. The national concerns for the individual states' citizens slowed the progress towards integration, causing apprehension that the initial impetus given by the formation, and later expansions, of the Common Market had faded.[4]

In 1983, The European Parliament published the Albert-Ball report which outlined how the Community was destroying itself by not working together to overcome crisis. In the summer of 1984, the European leaders met in England to discuss the future of the Community. The new president of the Commission, Jacques Delors, made four proposals: institutional reform of the governing body of the Community; rebuild the Community around a common defense policy; a common monetary union built on the successful European Monetary System; and turn Europe into a single, unified internal market.[5] The agreements reached provided for revisions to the Treaty of Rome as well as proposing serious discussions concerning political cooperation in the future.

In 1985, the Commission vice-president, Lord Cockfield of Great Britain, issued a white paper called "Completing the Internal Market" that outlined the steps required to remove the remaining obstacles to economic integration. This paper also set a deadline of 31 December 1992 for the removal of all internal trade barriers to the free movement of goods, services, capital, and people within the Community. The proposals were approved by the member nations in 1986 and became effective 1 July 1987. This white paper became known as the Single European Act.

The Single European Act enhanced the powers of the European Parliament and introduced a series of reforms aimed at achieving a political and monetary union as well as an economic union of the member nations. The first requirement was to identify barriers that inhibited trade among the member nations. Nearly 300 barriers were identified and categorized as being either physical, technical, or fiscal.[6] Physical barriers referred to frontier controls such as physical checks of goods, paperwork, and quotas on goods. Technical barriers referred to differing health and safety regulations, technical standards on products, recognition of workers' qualifications, and regulatory systems for services. Fiscal barriers related primarily to the wide range of Value Added Taxes (VAT) and excise duties in the member nations.

To acquire support for this latest agenda, the Commission organized and published the Cecchini Report. Paolo Cecchini conducted a study of the Single European Act proposals and removal of the trade barriers. His study predicted that implementation of the 1992 program would result is a savings of $200 to $300 billion and increase the gross product of the member nations by 4 to 7 percent.[7]

Current Problems

During 1988 and 1989, the realization that an integrated Europe could work set off a wave of economic transactions. Cross-border investments by European firms and the infusion of foreign capital for a future investment in the single market began in earnest. "Fearful at one point that they might be excluded, foreign companies rushed into new EC investments, contributing to European growth rates to an extent unforeseen by Cecchini's study," noted Daniel Burstein.[8] Although not all of Delors's proposals were adopted, and many are still in discussion, the economic and monetary integration is well on its way. Industry is keeping the pressure on the Commission for full implementation of the white paper initiatives. Significant differences remain in several areas, such as the political future of the Community, monetary integration, and that of addressing national sovereignty; some 50 of the original proposals of the white paper remain unsolved. Work on the single European market will not be completed in 1992. Much of the single market legislation will not come into force until long after December 31, 1992; the member nations will require up to a year to ratify Community legislation and put it into effect.

Political integration under the guise of economic cooperation was the basis for the Community. But little significant progress toward establishing a federal system has been accomplished. In April, 1990, France and Germany proposed a political union to be in place by 1993. There have been several meetings focusing on the issues of decision making and implementing a common foreign and security policy but not much progress was made prior to the 1991 Maastrict summit. At this summit, the member nations voted in favor of a treaty that supports "an even closer union among the peoples of Europe, where decisions are taken as closely as possible to the citizens."[9] The attendees agreed to establish a common foreign and security policy with the clear intent to increase their influence on world affairs. Those policies must be defined by unanimity, although the national governments can decide that certain portions of a specific policy can be implemented by a qualified majority.[10]

Diplomatically the Community has begun to pull together in international affairs. The member nations have imposed rigorous diplomatic and economic sanctions against Libya for its role in international terrorism. They have taken the lead in financing the economies of the emerging Central European countries of the former Soviet bloc; the Community directs the Bank for European Reconstruction and Development, created in 1990 to lend to the region.[11] Most recently, the Community led the world in fully recognizing the secession of Croatia, Slovenia, and Bosnia and Herzegovina from the former Yugoslavia. The member nations have agreed to work toward establishing a common defense policy under the auspices of the West European Union (WEU) to which 9 of the 12 member nations belong. The Community decisions concerning defense issues must, however, be compatible with existing NATO commitments.[12]

While these recent "European" responses indicate a move toward some sort of political integration, more often than not the member nations continue to set their own national policies. For example, Germany pushed its recognition of the idependence of Croatia and Slovenia onto the whole Community. During the Gulf War, the nations, not the Community, responded individually to the United Nation sanctions.

Full monetary integration within the Community is an increasingly difficult task. In 1978, the then member nations agreed to create an integrated European monetary system built around a fixed Exchange Rate Mechanism (ERM). The ERM is a mechanism through which currency fluctuation would be confined to a band either side of a parity defined in terms of the European Currency Unit (ECU).[13] Currency realignments were subject to negotiation and agreement among the member nations. But it was the Single European Act that provided the incentive to institute changes required for full monetary integration. In December 1990 the member nations, except Britain, accepted a three stage strategy for an Economic and Monetary Union (EMU). The implementation of the EMU will mean a single European monetary policy which is to be managed by a single bank, the EuroFed. There will be a single rate of monetary expansion, a single structure of interest rates, and a single external exchange rate.[14] This monetary union, however, will not include fiscal union; each member nation will maintain its own fiscal policy. The earliest date the central bank will be operational is 1 January 1997, after a majority of the member nations meet strict economic convergence criteria.

The European Community is both more than a title and less than a total success. National interest differences between member nations are a common occurrence. Often time these differences reflect the relative support of the member nations for faster or slower integration that depends on the issue being discussed. National laws still govern immigration policy, drug controls, terrorism, and most law enforcement functions.

Significant Issues Remaining.

The European Community has made significant progress in focussing on a single market rather than twelve separate ones. Capital and goods can already pass, to a large extent, unhindered from one member nation to another. But there is much left to do and issues remain unanswered that are causing dissension among the member nations, nations that want to become members, and nations wanting only to trade with the Community.

The Single European Act improves market access throughout the Community. And through this access, the competitive pressures will increase the incentives on firms to adopt innovative and cost-reducing production processes. "The advent of a larger market will enable firms to take advantage of hitherto unexploited economies of scale, with consequent reductions in unit costs and expansion in output. However, these benefits may be limited to a few sectors and may not be available across the broad mass of European industries," noted economist Nicholas Gianaris.[15]

There are talks ongoing within the Community on removing the existing national policies, quotas, and subsidies on agriculture, steel, fisheries, and textiles. While some of the member nations are unwilling to remove these barriers, especially agricultural subsidies, there is a concern by all that without some type of compensating Community barrier too many businesses will be forced out of the competition by the external market. Although these artificial barriers are opposite of what the Community champions, the national governments are not ready to commit to wholesale business collapse and massive layoffs of workers from marginally successful enterprises. In the agriculture industry alone, subsidies account for 48 percent of the 9 million farmers' income.[16]

It is probable that a part of these existing national subsidies will remain for the foreseeable future and that a series of Community-wide external trade barriers will be instituted. These will be necessary to allow the internal market to stabilize after the end of the year and to allow selected industries to adapt to changed market conditions.

Some economists are saying the current economic stagnation in Western Europe is a delayed reaction to German unification.[17] Initially the unification stimulated a period of increased spending in Germany and throughout Western Europe. But Germany had to borrow funds to pay for the expanded social programs and reconstruction that is required in the Eastern states. The Bundesbank raised interest rates to curb inflation and the government, to help pay for the costs of unification, imposed a surcharge on income taxes of 7.5 percent for two years and increased the gasoline tax by one-third. The high interest rate in Germany has forced the other member nations to maintain high interest rates in order to keep capital from migrating to Germany to take advantage of its higher rate. The high interest rates means less growth; the net effect is that the European economy, not only Germany's, has slowed down. This current European stagnation gives credibility to the argument that the benefits gained through the single market should not be extended to outside trading partners until the member nations have had time to absorb the internal changes.

The problem of protecting a member nation's sovereignty will remain one of the most difficult issues to overcome. Representative of this feeling is a comment by the former British Prime Minister Margaret Thatcher. In a speech delivered at the opening ceremony of the College of Europe in Bruges, Belgium, in September 1988, she said, "We have not successfully rolled back the frontiers of the state in Britain only to see them reimposed at a European level, with a European suprastate exercising a new dominance from Brussels."[18] Member nations are willing to accept a degree of supranationality in economic fields, but most are not willing to sacrifice all of their national sovereignty to a higher authority. According to a study group of the Geneva Graduate Institute of International Studies, "supranationality as foreseen by the Treaty of Rome may roughly be described as a division of sovereign powers between national governments and the supranational institution. The final evolution would transform the supranational institutions into a federal government, leaving present national governments with residuary powers."[19] Member nations will continue to put their citizens' interest above all else and this will be the critical issue that will prevent total market integration. Member nations want to maintain their identities.

The Community's member nations have taken hundreds of measures to attempt to create a single European market. They have removed many of the internal trade barriers, are harmonizing technical specifications, and are establishing a single monetary policy. But Western Europe will continue to be a series of local, national, and international markets for differing goods and services; the scope will be determined by the supply and demand conditions in each market.[20] This is obvious when one considers the cultural and language diversity found within the Community. Regional markets within the overall market area will remain, just as they exist in the United States. There won't be a "Fortress Europe" as some critics of the European Community fear; Europe's dependence on import and export trade markets makes it vulnerable to international pressures.[21]

The new integrated market will certainly disrupt old trading patterns, encourage new enterprises while displacing workers and inefficient industries, and remake the economic configuration of Europe. It will become a more vigorous trading entity by emphasizing its strengths and removing its weaknesses through internal competition.

What will change, too, is that nations wishing to trade within the Community will only have to deal with one set of trade regulations, one set of industrial specifications, and, eventually, with only one currency.

Conclusion.

The world is undergoing profound change. Instead of a bipolar world organized around two military superpowers, a new multipolar world is emerging based not on military strength, but on economic prowess. The three superpowers in the twenty-first century will be North America, Japan, and the European Community.

For the past three decades, Western Europe has been deliberately developing and executing a plan for economic integration and improvement. What started out as an alliance to prevent a resurgence of war, the European Community has evolved into a strong economic power. This economically strong Western Europe is in the best interests of the United States; the United States and the Community represent the most important trading partner for each other. "The European Community is America's biggest trading partner, accounting for roughly one-fifth of all foreign trade in which the United States is involved. Most important, it is the biggest buyer of American goods, absorbing 23.3 percent of all U.S. exports in 1988," noted Daniel Burstein.[22] American multinational corporations do over $375 billion worth of sales a year in Europe.[23] Over the past several years, we have been able to maintain a positive trade balance with the Community.

The twelve member nations are becoming one market. Over the five years since the Single European Act, the member nations have been steadily erasing the economic barriers that divide them. By the end of this year, they will have, for all intents and purposes, not twelve national markets but one huge single market within which goods, money, and people will flow as freely as they do among the fifty states in America. By 1997 at the earliest, and by 1999 at the latest, they will have a single hard currency, the European Currency Unit, which will challenge the dollar as the world's strongest currency.

The primary challenge facing the United States will be dealing with the increased competitiveness of the Community, not only within Europe but on the world market. The improvements expected in the competitiveness of Community-produced goods will mean that the demand for goods from outside will be redirected to suppliers from within the Community. The Cecchini report estimates that 1 percentage point of its 4.5 percent growth rate for the European gross domestic product will take the form of an improved trade balance arising from trade diversion that reduces Community imports from non-Community economies.[24] But even a 10 percent reduction in U.S. imports will only mean a 2.3 percent decrease in total U.S. exports. However, if the growth effects of market integration are correct, it is likely that the Community will be importing more goods from the United States than now. Economist Robert Lawrence states "the United States in particular will benefit from the completion of the internal market because the growth effects will outweigh those from trade diversion and greater protection."[25]

The effects of EC 92 will also further the development of larger European-wide service companies which will be more competitive than externally supplied services. Increased productivity turning out quality products and services at a competitive price will challenge U.S. corporations to keep existing markets and in developing new markets. Should the Community significantly alter the relative competitiveness of the United States on the world market, the result may be the displacement of U.S. exports. To successfully compete, we must change our way of doing business and adopt some of the principles of the European and Asian corporations.

The global market place is not a sterile environment. Politics, nationalities, productivity, and innovations each play a significant role. A totally free market on a global scale is a myth. Just as the United States has protectionist policies and subsidies on agriculture, automobiles, and steel, so must the European Community. The Community is only following the U.S. standard of aggressively using regulations to deter "unfair trade practices" and to achieve maximum reciprocity. "Governments must take steps to ensure the competitiveness of the business infrastructure and the economic security of the nation," noted Daniel Burstein.[26] But the interdependency of the world trade environment makes it impossible to ignore external trading partners. While free trade on a global scale is an impossibility, the economic superpowers must do everything in their power to promote open and fair trade. In this economically interdependent world, all nations benefit from the prosperity of the others.

The current recession in the United States, and the general stagnation of the global economy, is causing great concern to politicians and economists alike. The Council of Economic Advisers recognizes that economic stagnation feeds an isolationist spirit and that it is reflected in a heightened demand for protectionism.[27] During the recent Munich Conference on Security Policy, several members of Congress called for a tougher stance against the restrictive trade policies of the European Community. They indicated the economic problems of the United States and the European attitude on trade could force the administration to focus its efforts on domestic problems and that trends toward isolationism and protectionism in the United States are very strong.[28]

Economically speaking, there is little difference between the European Community and the North American Free Trade Association (NAFTA) the United States is negotiating with Canada and Mexico. While they want to create a single trading entity of twelve nations, we only want to further open trade among three. But the results would be the same: increased market access with a growth economy within the bloc. We are having the same fundamental differences with Canada and Mexico in the areas of agriculture, automobiles, and textiles the Europeans are having. It is just as unrealistic for the Europeans to drop their quotas and subsidies as it is for the United States. Politicians and industrialists must be made to understand that only in an ideal world does free trade truly exist. Trade differences will always exist as long as the United States and the European Community produce the same type of products and compete for the same markets. They become trade disputes when the governments are pressured into unilateral protectionism because of the way industry is supported or through contradictory economic, monetary, or trade policies.[29]

What then must the United States do to insure their fair share of world trade? First and foremost the United States must understand that the European Community is a social market with a high degree of governmental intervention with nationally developed strategies for long-term industrial development. The national governments practice fiscal policies which creates low-cost capital for investment, thereby encouraging investment and savings over consumption. It provides its people ample social programs and insulates them from risk, much more than ours.[30] After the formal integration, the pressure exerted by European firms to give Community members priority in the expanded market is certain to be called for. However, U.S. firms should still be able to operate in the mid- and long-term on fairly equal terms with the European firms; competition will be strong and some "discrimination", overt or covert, will probably occur. The advertising efforts to have citizens distinguish between Community-produced goods and foreign goods will, over time, decrease. The European consumer is no different from the American consumer: they want a quality product that is priced competitively.

Second, the United States must push for the successful conclusion to the Uruguay round of the General Agreement for Tariffs and Trade (GATT). The lengthy current round is blocked by the stalemate, primarily between the United States and the European Community, over agricultural subsidies.[31] The impasse in the talks, while centered around agriculture, affects nearly every aspect of world trade. The Community, while supporting the Uruguay round to demonstrate its commitment to open trade, is proposing a lesser reduction in the farm subsidies due to conflicts between member nations on the size of subsidies. A successful GATT negotiation will restore the central role of the GATT and further the broader objective of maintaining, widening, and strengthening a global open trade system.

There will always be some form of subsidies, both in Europe and in the United States; the tariffs, however, should be reasonable and rational and based on global norms. We would be better served if we followed the Golden Rule in global economics. The United States should not act only in terms of its own self-interest; in the end we will benefit more by acting more altruistically and cooperatively toward the European Community. The United States must realize the benefits of international cooperation in trade. The danger of protectionism will be present on both sides of the Atlantic for the forseeable future. The kind of truly mutual cooperative agreement that is required -- where both sides realize you have to give in order to receive -- can only be regarded as a positive step toward breaking down the defensiveness that often leads to the protectionist, or isolationist, feeling. "The fact that the twelve disparate countries of the EC have been able to harmonize so many of their trade-related rules and establish a supranational market is, in a certain sense, an inspiration to the rest of the world's negotiators trying to make the GATT system work, even if it is the Europeans who appear to the Americans as the uncompromising antagonists destroying the Uruguay Round."[32]

Third, we need to stop focussing on short term interests and rewards; we must develop coherent and constructive long-term strategies and solutions. The United States has consistently invested a smaller percentage of the gross national product than most other industrialized nations. France and Germany have invested about 23 percent of output and experienced a productivity growth of more than 3 percent; the United States invested 18 percent and received only a 1 percent growth.[33] We must modernize our industrial and corporate base. American industry must increase their net spending on machinery and factories. Harvard economist Martin Feldstein predicts net new investment in plants and equipment could approach zero in 1992.[34] The government is going to have to become more involved in industrial policy; not a negative policy of default, but rather one that is proactive and positive.[35] The government must promote a broad strategy to overcome the main two obstacles to greater investment: the national savings rate is too low to finance needed investment spending, and the cost of investment capital in the U.S. is higher than in Europe due to differences in tax rates and business practice.[36]

Fourth, we need to ensure that our workforce is well educated and well trained for the high technology future. When an industry fails or a plant closes, they must institute retraining programs to get the displaced workers back into the labor force. Industry, and government, needs to reassure workers that a company takes care of its employees and that it is worthy of a return show of loyalty, interest, and productivity. To successfully assert ourselves on the international market, we must be on fairly equal terms with the competition.

Europeans are experiencing a tumultuous period in their history. The ending to the Cold War, the emerging democracies, the ethnic strife, and the general economic stagnation are all having an lingering effect on the European Community as they strive for integration. The United States should not reasonably expect the Community to devote significant effort to external trade relations at a time when they are having more compelling problems within the Community. Internal dissension over how to manage industrial quotas and farm subsidies, the growing unemployment in some countries, establishing Community immigration quotas, and the emerging political agenda are but a few of the significant issues facing the Community and member nations' bureaucracies. We need to understand the problems they are experiencing and, where possible, assist them in attaining their goal while not worsening our global position.

Tremendous opportunities are developing in Europe with the economic integration. "The savviest companies and the shrewdest investors are sure to find plenty of profit in the New Europe," says Daniel Burstein.[37] Instead of dealing with differing technical standards, differing import and export regulations, and twelve different national governments at the same time, American enterprises will be dealing with an integrated system of economic related regulations. Of course, this will not all happen on 31 December 1992, but a significant portion of integration has already occurred and the remainder is outlined in the Single European Act. American multinational corporations, already in Europe, should continue to do well. "Although U.S. based companies have lost global leadership in manufacturing, they are far out in front in many areas of the emerging service economy, such as finance, software development, information systems management, communications, entertainment, leisure time, and franchising, among others."[38] The single market should be incentive for other American companies to form alliances or joint ventures with Community firms, especially those who intend to do work in the emerging democracies of Central Europe and the former Soviet bloc.

EC 92 is a reality. The United States should not ignore it or be afraid of it. We should become familiar with it and advocate its success. Just maybe it will be the catalyst the American political and corporate leadership needs to effect economic and industrial change in the United States as the world evolves into a multipolar marketplace.

APPENDIX

Significant Dates in The European Community.

May 9, 1950	French Foreign Minister Robert Schuman proposes pooling French and West German production of coal and steel, and creating a multinational organization for that purpose.
Apr 18, 1951	The Treaty of Paris establishes the European Coal and Steel Community (ECSC) with West Germany, France, Italy, Belguim, Luxembourg, and The Netherlands as members.
Aug 30, 1951	The French Nationaly Assembly rejects a plan for a European Defense Community.
Mar 24, 1957	The Treaties of Rome, signed by the six member nations of the ECSC, establish the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), effective January 1, 1958. The Treaties also provide for a European Commission, the executive committee for the three European communities; a Court of Justice, and a Parliment consisting of elected legislators from the member nations. The Economic Community begins to eliminate customs duties among member nations and establishes a common tariff barrier to outsiders.
Jan 4, 1960	Stockholm Convention signed establishing the European Free Trade Association (EFTA) with the Scandanavian countries, Switzerland, Austria, Portugal, and Great Britain as signatories.
Apr 8, 1965	The six member nations sign the treaty officially merging the three Community organizations (ECSC, EEC, and Euratom).
Jun 30, 1965	France vetoes a plan to give the Community its own financial resources by assigning tariffs collected by its members.
Jan 29, 1966	The member nations reach a compromise requiring unanimity when a state declares its "vital interests" at stake.
April, 1970	Community finances secured by system whereby it will receive all customs duties collected from non-member nations, as well as a percentage of each member nation's value-added tax.

Jan 22, 1972	Denmark, Ireland, Norway, and Great Britain sign Accession Treaty effective January 1, 1973.
Sep 26, 1972.	Norwegian entry into the Community is rejected by national referendum.
Jan 1, 1973	Free trade agreements between the Community and the European Free Trade Association (EFTA) take effect.
June, 1975	The new Labour Government in Great Britain, which has pledged to withdraw from the Community, holds a referendum and 67 per cent of voters decide they want to remain a member.
Dec 1, 1975	The member nations decide on direct election to the Parliment, with the first election of 410 members to be held in June, 1979.
Apr 1, 1976	The first Lomé Convention with African, Caribbean, and Pacific countries enters into force, providing duty free access of goods produced in over 60 countries.
May 28, 1979	Greece signs Accession Treaty to join the Community effective January 1, 1981.
Jun 17, 1984	In the second election to Parliment, the citizens of the ten member nations elect 434 representatives.
Jan 1, 1985	The first European passports are issued, although they still retain national identification in smaller print.
Feb 1, 1985	Greenland, which joined as part of Denmark, leaves the Community but maintains close economic ties.
Jun 12, 1985	Spain and Portugal sign Accession Treaty to join the Community effective January 1, 1986.
Jun 29, 1985	The European Commission endorses a white paper proposing an integrated European market, with free movement of goods, money, and people, to be effective December 31, 1992.
Feb 28, 1986	The signing of the Single European Act by member nations streamlines Community procedures, making it possible for most legislation to be passed by weighted majority rather than unanimity.

Oct 3, 1990	The former East Germany, as a part of the unified Germany, becomes part of the Community.
Oct 22, 1991	The EFTA, consisting of Sweden, Switzerland, Iceland, Norway, Austria, Liechtenstein, and Finland, establishes an integrated trade area with the Community.
Nov 21, 1991	The Community signs association agreements with Poland, Hungary, and Czechoslovokia, giving access to the free trade area by the year 2000.
Dec 10, 1991	The Community agreed on establishing an Economic and Monetary Union (EMU) and declared the intent to form a European Political Union (EPU).

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